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RUEHUJA/AMEMBASSY ABUJA 2023
RUEHAR/AMEMBASSY ACCRA 2169
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RUEHRL/AMEMBASSY BERLIN 0820
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UNCLAS SECTION 01 OF 03 HARARE 000627

AF/S FOR GGARLAND
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COMMERCE FOR BECKY ERKUL
TREASURY FOR D. PETERS AND T.RAND
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
STATE PASS TO USAID FOR L.DOBBINS AND E.LOKEN

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E.O.12958: N/A
TAGS: ECON EAGR PGOV ZI
SUBJECT: CASH SHORTAGE LOOMS AS ECONOMY SLIPS INTO FREE-FALL

REF: Harare 604

SUMMARY

¶1. (SBU) The current hyperinflationary environment has increased demand for cash immensely as debit cards, checks and bank transfer payments have all lost favor across the business sector. Businesses and individuals attempt to cope by barter, by exchanging local currency quickly into stable currencies, and by indexing prices to U.S. dollars or dollarizing outright. Banks are still getting their daily cash requirement from the Reserve Bank of Zimbabwe (RBZ), nevertheless there are numerous indications of an impending cash shortage. The Government of Zimbabwe (GOZ) is responding with stopgap measures such as throttling the cash available on the market through a Z$100 billion (less than US$1) daily cash withdrawal limit at banks, lifting the limit on checks, and introducing a new Z$100 billion note. Further aggravating the rapidly deteriorating economic situation, foreign currency cash is also in short supply. The GOZ's measures to slow the free-fall are unsustainable; without biting the bullet and adopting a stabilization program that substantially cuts government expenditure, there is no end in sight to the misery that Zimbabweans are enduring. END SUMMARY.

Hyperinflation Raises Demand for Cash

¶2. (U) The prevailing hyperinflationary environment has rendered the use of debit cards and checks almost irrelevant. Most traders recognize that hyperinflation will erode the value of checks or bank transfers before funds are credited to an account, and are demanding payments in cash or U.S. dollars (or Rand in Zimbabwe's second city

of Bulawayo). When shops and restaurants do accept checks or bank transfers, they are increasingly demanding a commission of 50 percent to 100 percent (conversely, some raise their prices and offer a 50 percent discount for cash). In addition, the ongoing "deretailization" of the economy has increased the transactions demand for cash as basic commodities are only to be found on the informal market.

¶3. (U) Debit cards have also reached their limit since point of sale systems can only handle amounts up to Z$9.99 billion (less than ten U.S. cents). On top of that, connectivity problems with banks due to a deteriorating telecommunications network aggravate the situation. Consequently, cashier lines are interminable as shoppers swipe their card repeatedly to pay for a modest basket of goods. Until July 11, check amounts were also capped at Z$900 billion (about US$19 at the time), leaving shoppers writing multiple checks at the till.

¶4. (SBU) Bank clients are indeed lining up for hours to withdraw their daily limit of Z$100 billion cash (worth less than US$1 today on the black market.) But the lines are symptomatic of the low withdrawal limit rather than a cash shortage--at least for now. Both Francis Macheka, Executive Director for Banking at Agribank, and Miriam Chimatira, senior manager in the Central Cash Department at ZB Financial Holdings told us that the Reserve Bank of Zimbabwe is still meeting in full the two banks' daily cash requests.

Merchants Foresee Cash Shortage

¶5. (SBU) Faced with these challenges, merchants, individuals and banks have devised a variety of coping mechanisms. The OK Zimbabwe supermarket chain has developed an in-house debit card dubbed "Shop Easy" that overcomes several of the problems. It eliminates the connectivity problem with banks; by shoppers depositing checks or making transfers to their supermarket accounts, funds are available to the merchant before the consumer makes any purchases; and it serves as a loyalty card. OK branch manager Edwin Daramanzi predicted to us that the card would grow in popularity as cash becomes scarce.

¶6. (SBU) David Mills, Director of Retail for Kingdom Meikles Africa, told us that under normal circumstances TM Supermarkets generates 65 percent of its revenue in cash and the rest in checks and transfers. But in recent weeks the ratio has shifted dramatically to 20 percent cash/80 percent checks and transfers, indicating an imminent cash shortage. Further pointing to a looming scarcity, Macheka of Agribank told us his cash-rich clients had begun to sell notes at a 10-20 percent premium.

Parallel Forex Market Back with a Vengeance

¶7. (SBU) Individuals are trying to maintain the value of their earnings by holding financial assets in a stable currency such as the U.S. dollar, Pound sterling or Rand. Given the growing divergence between the inter-bank rate introduced on April 30 and the parallel market exchange rate (after they had nearly converged initially), the lion's share of foreign exchange is now flowing to the informal channel rather than to banks. Filda Gwadu, who manages the Foreign Currency Account (FCA) department at ZB Bank, confirmed that foreign currency inflows to his bank had declined sharply in recent weeks. (NOTE: The average inter-bank exchange rate today was Z$30.35 billion:US$1 against the street rate of Z$105 billion:US$1 and bank transfer rate of Z$600 billion:US$1. END NOTE.)

Shortage of Forex Cash also Looming

¶8. (SBU) Fred Mutanda, head of Western Union, told us that Travelex's suspension of delivery of foreign currency cash (reftel)

was biting. To fill the shortfall, he had only been able to buy USD one million in cash from local banks in the week of July 14 due to the banks' own low intake. On July 22, he said Western Union had only US$150,000 cash left in the country. Mutanda was pessimistic that the banks could meet the company's cash needs this week and indicated that the Western Union outlets might be forced to shut down within days.

Back to the Future with Barter

¶9. (SBU) With year-on-year inflation widely believed to be in the tens of millions percent as of June 2008 and rising, more companies are resorting to barter to preserve value. Most recently, we learned that the liquor manufacturer African Distillers has begun partially paying its senior personnel in the much sought after commodity of beer. Dairibord is topping up wages with a case of high-resale-value UHT milk per employer. (COMMENT: These measures assume there will be a resale market for the products. With the

prevailing high inflation, the market for such items as beer and milk may become thin. END COMMENT.) Fuel coupons, the price of which moves in lockstep with the U.S. dollar, are also widely accepted as barter payment for goods and services ranging from golf club membership dues to internet service. In fact, so sought after are fuel coupons as a medium of exchange that one of the main fuel distributors, Redan Petroleum, has warned the public to beware of "extremely convincing" forgeries of its coupons printed on water-marked paper. (COMMENT: With a 20 liter fuel coupon worth 50 times more than the highest denominated note in the country, it's no wonder that a counterfeiter would be more likely to forge a fuel coupon than a bank note. END COMMENT.)

GOZ's Stopgap Measures

¶10. (U) To alleviate the local cash crunch, at least in the very short term, the RBZ eliminated the ceiling on check amounts. It also introduced a new Z$100 billion note ("special agro-cheque") on July 21. (COMMENT: When the RBZ introduced the Z$50 billion note on May 30, it was worth US$76.92 on the street. Two months of hyperinflation have eroded its value to about U.S. 50 cents. We expect hyperinflation to debase the Z$100 billion note even faster. END COMMENT.) The RBZ has resisted calls to lift the cash withdrawal limit at banks, keeping the banks demand artificially low.

¶11. (U) In an effort to put basic commodities back in reach of ordinary Zimbabweans, on July 15 President Mugabe launched an RBZ-funded "Supply Enhancement" program to import basic commodities. How Governor Gono will finance the program, other than by creating money and further fueling inflation, is unclear. Furthermore, to boost domestic supply, Minister of Industry and International Trade Obert Mpofu announced on July 20 a ban, with immediate effect, on the export of all basic commodities. Mpofu said that industry had abused the government's deeply subsidized BACOSSI facility by exporting output meant for the local market (at controlled prices). It is unclear whether the announcement is backed by a statutory instrument; in addition, it would appear to contravene SADC and COMESA protocols. At the least, the Minister's rhetoric bodes ill for exporters, as the export market had become the lifeline of manufacturers by providing foreign exchange to import inputs and maintain the production cycle.

COMMENT

¶12. (SBU) Cash still appears to be readily available, at least to banks, but we see numerous indications of an impending shortage. Individuals and businesses are seeking ways of coping as both the rate of impoverishment, particularly for pensioners on fixed local currency incomes, and the pace of decline in business activity

quicken startlingly. The GOZ's stopgap measures to keep cash in circulation and put basic commodities back on the shelf are all unsustainable in this economic free-fall. The only lasting solution to the economic crisis is for the GOZ to bite the bullet and adopt a stabilization program that substantially cuts government expenditure-and the sooner the better. END COMMENT.

DHANANI